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Infrastructure & Project Finance

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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in infrastructure & project finance.

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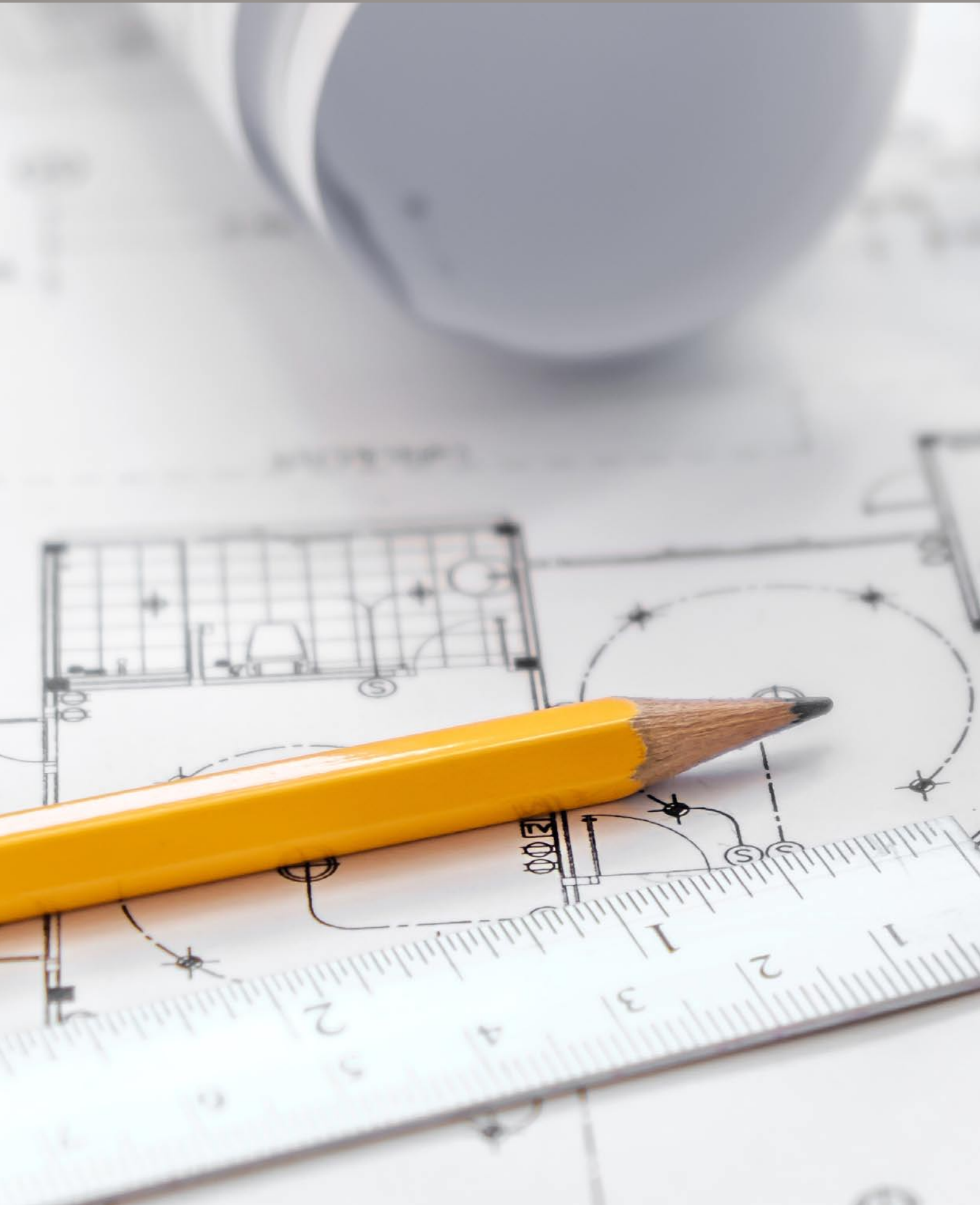


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INTRODUCTION

Infrastructure investment and development is a vital tool for modern economies, creating jobs and helping to deliver growth.

Since the onset of the financial crisis of 2007-08, governments have been forced to get creative. In the US, for example, federal, state and local level governments have explored novel means of securing infrastructure investment from alternative sources. Private investment in particular has been adopted by virtually all types of infrastructure assets. This has not, however, been restricted just to the US market; public-private partnerships (PPP) and private finance initiatives (PFI) have become a core part of modern infrastructure development.

The importance of private investment is most vital in areas where core infrastructure assets are in a state of disrepair and local authorities are unable to provide the capital needed to maintain or improve their services. Though there tends to be some resistance to private investment in infrastructure development, public opinion, in certain jurisdictions, is shifting.

The alarming slowdown of the Chinese economy in the second half of 2015 has also had a bearing on infrastructure development and funding. In China, the government has launched a series of reforms to encourage local governments to structure PPP projects and issued government bonds. The PPP model has proven conducive to both growth and reform, with budget restraints likely to remain in place for most governments, we are entering the era of the PPP.



MOZAMBIQUE

PAULA DUARTE ROCHA
HENRIQUES, ROCHA & ASSOCIADOS



Q HOW HAS THE INFRASTRUCTURE SECTOR FARED IN MOZAMBIQUE OVER THE LAST 12-18 MONTHS? HOW ARE ECONOMIC CONDITIONS AND GOVERNMENT BUDGETS AFFECTING INFRASTRUCTURE INVESTMENT AND DEVELOPMENT?

ROCHA: The availability of natural resources and Mozambique's geographic location have been key to boosting infrastructure development and rehabilitation, with significant investors in the mining, energy and transport infrastructure sectors. Experiencing annual Gross Domestic Product growth above 7 percent in recent years and with the prospect of 2015-2016 seeing growth above 8 percent, Mozambique's potential to attract foreign investment for developing much needed and critical infrastructure seems promising. Rising inflation, political instability and increased financing of the state budget through credit are said to be stalling the Mozambican economy, threatening the positive forecast of economic growth.

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Q WHAT TYPES OF INFRASTRUCTURE PROJECTS ARE PROVING POPULAR AT PRESENT? WHAT OPPORTUNITIES EXIST IN AREAS SUCH AS ENERGY AND POWER, TRANSPORT, WATER SUPPLY, COMMUNICATIONS, WASTE MANAGEMENT, HEALTHCARE AND EDUCATION?

ROCHA: Infrastructure investment and development is critical in Mozambique and investment opportunities in the infrastructure sector are unlimited, especially around the natural resources sector. The enabling legal framework for the construction and operation of LNG facilities and related activities has been a turning point for creating new investment opportunities and for fostering growth in Mozambique's economy. Primarily developed around and providing support to the natural resources industry, transport infrastructure projects worth billions of dollars – railways, ports, bridges – are in the pipeline. The aim of these projects is to increase links to and expand ports capacity, allowing for greater exports from natural resources concession areas, but also from the hinterland countries. Energy infrastructure projects are also a trend, with coal, gas and hydro power plants currently in the pipeline. Mozambique's solar potential is also attracting interest.

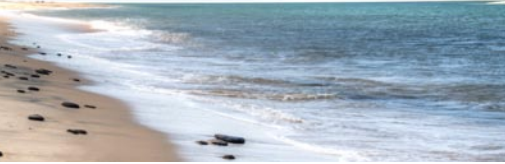
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Q TO WHAT EXTENT IS THE GOVERNMENT INTRODUCING POLICIES AND INCENTIVES TO ATTRACT PRIVATE INVESTMENT TO FUND INFRASTRUCTURE DEVELOPMENT? HAS THERE BEEN AN INCREASED APPETITE FOR PUBLIC-PRIVATE PARTNERSHIPS (PPPS) AND PRIVATE FINANCE INITIATIVES (PFI), FOR EXAMPLE?

ROCHA: Reports state infrastructure improvement is “the pillar of the government of Mozambique’s development strategy”. Besides a favourable exchange control regime, the tax regime is not too restrictive to business and growth, accommodating tax incentives in Mozambique such as deductions from taxable income, deductions from the amount of tax assessed, accelerated depreciation, tax credits, exemption from tax and the reduction of the rate of taxes and other fiscal payments, the deferment of the payment of taxes and other special fiscal measures. Mozambique has approved and implemented a ‘mega-projects legislation’, a cross sector legislation establishing the guiding rules for the process of contracting, implementing and monitoring undertakings of public-private partnerships, large-scale projects and business concessions – both greenfield and brownfield projects are permitted within this legal framework, with contract lengths depending on the type of infrastructure to be developed. This ‘newly’ approved legal framework imposes restrictions on foreign equity participation for foreign investments in Mozambique, establishing provisions accommodating not only a mandatory and progressive increase of state participation, but also mandatory mechanisms and conditions for the involvement of local companies and individual entrepreneurs in project activities in such sectors.

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Q WHAT TRENDS HAVE YOU SEEN IN PROJECT FINANCE, IN TERMS OF PRICING, TERMS, WILLINGNESS TO LEND, AND SO ON?

ROCHA: The cost of borrowing locally, a limited financing capacity of local banks along with restricting domestic rules for financing in foreign currency, dictates and maintains the recourse to international markets to fund infrastructure investments in a foreign currency in Mozambique. Financing projects in international currencies allows sponsors to obtain low and fixed exchange rates on loans with longer tenors. Available security models and excessive bureaucracy increasingly challenge the bankability of projects in the international market.

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Q WHEN EXECUTING INFRASTRUCTURE DEALS, HOW IMPORTANT IS DUE DILIGENCE TO MANAGE THE RISKS AND REGULATORY CHALLENGES?

ROCHA: Due diligence is crucial, if not to keep pace with and ensure compliance with constant legislative developments, to mitigate common risks associated with the gap between legal principles and common practice, including the potential for corruption risks.

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Q IN YOUR EXPERIENCE, WHAT ELEMENTS ARE ESSENTIAL TO OPTIMISING EXISTING PROJECTS, GENERATING RETURNS AND CREATING LONG-TERM VALUE FROM INFRASTRUCTURE INVESTMENTS?

ROCHA: The majority of economic infrastructure sectors in Mozambique still require a significant amount of private investment. Reducing barriers to private infrastructure finance – leading to a lack of bankable projects being developed in the country – and diversifying the economy, including developing the financial sector, are essential to optimising existing projects in the pipeline and creating long term value from infrastructure investments.

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“Available security models and excessive bureaucracy increasingly challenge the bankability of projects in the international market.”

Q LOOKING AHEAD, WHAT KEY TRENDS DO YOU EXPECT TO SEE IN INFRASTRUCTURE AND PROJECT FINANCE IN MOZAMBIQUE OVER THE COMING MONTHS?

ROCHA: Mozambique holds a wealth of opportunities for foreign investors and all indicators point to the country becoming a reference for investors in the infrastructure sector over the coming years. Natural resources will play a major role in driving the Mozambique economy and the infrastructure sectors forward across the country for decades to come. Securing financing for the development of LNG projects is the immediate challenge ahead, and is expected to capture the region’s attention over the coming months.



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Paula Duarte Rocha is a partner at Henriques, Rocha & Associados, a member of MLGTS Legal Circle as Mozambique Legal Circle (MLC). Throughout her professional career, she has intervened in all areas of practice advising national and foreign investors, with a demonstrated track record in banking and project finance transactions, particularly in natural resources and public infrastructure projects. She has been a registered arbitrator at the Center of Arbitration, Conciliation and Mediation (CACM) since 2002, with experience in commercial arbitration acting both as an arbitrator nominated by the parties and as chairman of the Arbitral Court.